price level is chosen for the future, only slightly below the present price level, say 5, 10, or 15 per cent, varying in different countries.

Why should we not thus judicially and deliberately choose new price levels for our new world? In other words, why not choose anew our sovereign, franc, mark and dollar?

What the coins representing these monetary units *weigh* is of no consequence compared with what they *buy* and if we once decide on what they ought to buy, that is, what the general level of prices ought to be, it is easy to decide what the weight of the respective monetary units shall be to start with.

I do not mean that we should immediately drop down 5, 10, or 15 per cent. There should be a gradual approach, an inclined plane or gang-plank, from existing price levels to the permanent price level decided upon, descending perhaps one-half of one per cent per month, or whatever other rate is, after careful consideration, found to be best.

I shall not attempt here to restate the plan, which I have so often advocated, of stabilizing the dollar, but take the liberty of referring the reader to my book by that title, now out, which attempts to give the full argument for stabilization for which, in some form, the needs of the times cry aloud.

If we once stabilize each individual monetary unit, we shall thereby also stabilize international exchanges between them.

DISCUSSION OF PROFESSOR GUSTAV CASSEL'S "PRICES AND THE MONETARY PROBLEM"

By WILLIAM A. SCOTT
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Professor Cassel's diagnosis of the monetary and price problem which now confronts the world is, in my judgment, confused and my own confidence in the value of the remedies he suggests is weakened by his loose use of the term inflation and his exclusive reliance upon the quantity theory of prices.

His test of the presence or absence of inflation appears to be prices. If their level has risen, he concludes that inflation is present, whether the immediate cause of the rise be the cheapening of gold or the depreciation in the incontrovertible currencies of Europe. There would be no harm in such a use of the term if he did not rely chiefly upon inflation for his explanation of the change in the price level. To conclude that there is inflation whenever there is a rise in the level of prices and then to explain the rise by inflation is to reason in a vicious circle and to lead nowhere.

The quantity theory of prices is equally confusing and valueless in the present discussion. To refer to that old formula, in a discussion of the ultimate causes of price changes, is to misconceive the problem and to follow a false scent which will lead back to the point from which the start was made and throw no ray of light upon the dark places.

As I see the situation, there are three fundamental problems now awaiting

solution which, in importance, have precedence over all others. They are the increase in the production of staple commodities; the resumption of specie payments in Europe; and such a revision of the budgets of the governments of the countries which were engaged in the World War as will enable them, out of current revenues, to pay current expenses, the interest on their public debts and an annual sum sufficient for the accumulation of a sinking fund, adequate to the payment of the principal of their debts in a reasonable period of time. Of course, these problems are not entirely independent of each other, either in origin or in solution. The solution of one will help in the solution of the others and no complete and final solution of one is possible without the solution of the others, but they are sufficiently independent to warrant their being attacked separately.

For the solution of the production problem we need, primarily, peace, including a league of nations or some other settlement of our post-war international political problems, the removal of embargoes on commerce and the restoration of practicable working relations between laborers and their employers.

The problem of the resumption of specie payments can be solved only by the retirement of the inconvertible notes, which the governments of Europe issued during the war, for the purpose of forcing a loan from the people, and the reduction of the issues of European banks to such a volume as will restore their convertibility into gold on demand. Any attempt to compromise on this matter in the manner suggested by Professor Cassel, or in any other way, in my judgment, will only prolong the agony. This is not an insoluble problem and its solution within the next five years will be easier and attended with less disturbance than at any subsequent period. The solution will be found, however, only if economists and statesmen resolutely face the problem. If they entertain the feeling that the situation is hopeless and that past experience can no longer serve as a guide, and toy with such nebulous ideas as are involved in Professor Cassel's "purchasing power parity," we may wallow in the present "slough of despond" for an indefinite period.

The difficulties of the budgetary problems of the governments of Europe can hardly be exaggerated, but they cannot be lessened or removed by beclouding the question at issue. The debts incurred during the war, including those in the form of notes now circulating as money, must either be paid or repudiated, and the financial consequences of these two methods of procedure will not be so different as at first glance they appear to be. The debts in question are mostly domestic, and, if they are paid, taxes sufficient to meet the annual interest charge and to build up an adequate sinking fund must be levied on and collected from all the persons subject to taxation, and turned over to the holders of bonds and other public securities. If they are repudiated, a tax likewise will be levied but exclusively on security holders. Assuming that all security holders are taxpayers, and all taxpayers security holders, an assumption not very remote from the facts, the resulting financial position of each citizen will depend upon whether he loses more as

taxpayer than he gains as a public security holder or vice versa. The balance of gains and losses will, of course, vary with different persons and will not be the same in perhaps any case under the debt-payment and debt-repudiation plans, but in many cases the difference will not be great, and in every case there will be gains and losses to be balanced under either plan.

Of course, a combination of the two plans is possible, amounting in substance to partial repudiation or a scaling of the debts. It is this which Professor Cassel suggests when he recommends that "every attempt at the restoration of the old value of money" should be abandoned. The old value of money and the old price level are not identical, though his method of reasoning forces him to maintain that they are. The old value of money in the gold-standard countries is the value of the amount of gold constituting the unit of the value, whatever that may be, and, if that value is less now than it was formerly, as it doubtless is, the restoration of the value of money would not restore the old level of prices, but it would restore the convertibility into gold of all forms of the currency of each country.

The solution of the above mentioned problems will restore the exchanges to their pre-war state and will relieve the banks of the world of the greater part of the strain under which they are at present operating. The chief cause of their present overexpanded condition is the support they have been obliged to give their respective governments in the financing of the war. As soon as the finances of these governments have been placed upon a sound basis, the banks will be relieved of that obligation. Another cause of expansion is speculation which is everywhere rampant at the present time, especially in this country. For the support of this the banks are themselves responsible and the remedy for whatever amount of over-expansion is due to this cause they have in their hands, and they should apply it vigorously and without further delay in the form of increased discount rates and greater discrimination in the granting of credits. To expect the banks to accomplish more than this amount of deflation, to use a widely current term, is to expect the impossible, and to rely upon bank deflation as the chief element in the solution of present price and monetary problems is, in my judgment, to court disappointment and to delay a real solution.

OBSERVATIONS ON ARTICLE OF PROFESSOR GUSTAV CASSEL

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In general, I find myself in complete agreement with Professor Cassel, and it is interesting to note that he emphasizes certain aspects of the question of high prices with which the public is altogether too unfamiliar. The statement that "it is important to root out the popular fallacy that a general rise of prices can be prevented by legislation enacting maximum prices and